

IDAHO OUTLOOK

NEWS OF IDAHO'S ECONOMY AND BUDGET

STATE OF IDAHO

DIVISION OF FINANCIAL MANAGEMENT

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A New Record. This fall finds the U.S. economy hurling toward another record. The current expansion turns 103 months old this October. It posted the longest peacetime run of growth in December 1998. Early next year it should pass another milestone, when it becomes the longest known expansion. The current record is held by the 116-month Vietnam-era expansion that ran from 1961 to 1969. A quick look at the accompanying chart shows the uniqueness of the current situation. Records going back past the Civil War show the average expansion lasted 35 months. They also show peacetime expansions averaged about 29 months. Wartime expansions tended to last longer with an average of 64 months. So far, only four peacetime expansions have outlived the shortest wartime expansion. The current expansion is one of them.

Act Your Age? Despite its advanced age, the current recession shows few signs of slowing down. Real GDP has grown faster than its estimated potential pace of 2.5% in every year since 1995. Inflation has remained tame even though the unemployment rate has plunged below almost every estimate of full employment. Euphoric consumers have spent money faster than have they made it since 1993. Consumers have financed this shopping spree by pushing consumer debt to record levels and turning the personal savings rate negative. One reason for the consumers' ebullience was the soaring stock market. Consumers felt the rapidly appreciating stock market was doing the saving for them. It is hard to argue with this strategy since household financial assets have grown about 10% annually since 1995. Consumers also seem more comfortable with the inherent risks of the stock market. An attitude partially shaped to the market's resilience to downturns in recent years. Under these circumstances, it is understandable that few see any economic storm clouds gathering on the horizon.

Cynics' Corner. However tempting it may be, it would be premature to declare the business cycle dead. The trouble with recessions is they tend to strike quickly like tornadoes, as opposed to hurricanes that provide more warning. Thus, it may be worthwhile to dig a little deeper in search of the potential imbalances threatening the economy's winning streak. Inflation could rise faster than expected. Price increases have been held in check thanks to a serendipitous combination of factors. However, recent growth in Asia and OPEC production limits have already caused oil prices to rise from about \$10 per barrel last winter to about \$25 barrel this fall, which is even above OPEC's target price of around \$22 per barrel. The weakening dollar and strengthening Asian economies could dry up the flow of foreign funds to the U.S. that helped finance the expansion. It's a long shot, but American consumers may grow tired of excessive spending and become savers once again. This would remove the economy's major growth engine. The millenium bug may bite us still. It is anticipated that an inventory build up will take place previous to January 1, 2000 in order to prevent any supply disruptions. If the impact of Y2K is minor, there will be a production slowdown early next year as inventories are worked down. On the other hand, if there are major supply interruptions, production will suffer early next year. Federal Reserve tinkering may yet prick the stock-market bubble. A major stock-market correction would throw cold water on consumer confidence and hurt spending. While the economy is in excellent shape for continued growth, readers are reminded that only death and taxes remain certain.

U.S. Business Cycles

Start of Expansion		Duration	
Month	Year	Expansion Months	Recession Months
December	1854	30	18
December	1858	22	8
June*	1861	46	32
December	1867	18	18
December	1870	34	65
March	1879	36	38
May	1885	22	13
April	1888	27	10
May	1891	20	17
June	1894	18	18
June	1897	24	18
December	1900	21	23
August	1904	33	13
June	1908	19	24
January	1912	12	23
December*	1914	44	7
March	1919	10	18
July	1921	22	14
July	1924	27	13
November	1927	21	43
March	1933	50	13
June*	1938	80	8
October	1945	37	11
October*	1949	45	10
May	1954	39	8
April	1958	24	10
February*	1961	106	11
November	1970	36	16
March	1975	58	6
July	1980	12	16
November	1982	92	8
March	1991	104	
Average		35	18
Average Peacetime		29	19
Average Wartime		64	14
Source: National Bureau of Economic Research			
*Note: Bold italic denotes wartime.			

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General Fund Update

As of August 31, 1999

<u>Revenue Source</u>	<u>\$ Millions</u>		
	FY00 Executive Estimate³	DFM Predicted to Date	Actual Accrued to Date
Individual Income Tax	878.5	119.2	121.8
Corporate Income Tax	92.5	7.7	6.8
Sales Tax	611.8	106.3	111.1
Product Taxes ¹	15.5	2.7	2.8
Miscellaneous	84.6	10.6	12.5
TOTAL GENERAL FUND²	1,682.8	246.5	255.0

¹ Product Taxes include beer, wine, liquor, and cigarette taxes
² May not total due to rounding
³ Revised Estimate as of August 1999

General Fund revenue collections were quite strong in August, exceeding expectations for the month by \$10 million. This brings revenue for the year to date ahead of the predicted amount by \$8.5 million. Over 90% of the cumulative excess is due to the combined strength of the Individual Income Tax and Sales Tax. Although Idaho's basic economic indicators have signaled a softening of growth (year-over-year Idaho employment growth was only 1.5% in August), revenue collections continue to accrue at a strong rate.

The Individual Income Tax was \$5.4 million higher than expected in August, and is now \$2.6 million ahead of the year-to-date predicted amount. Although slightly lower-than-expected refunds contributed to August's gain, the vast bulk of August's excess was due to very strong withholding collections. Withholding growth of 10.5% over 1998 resulted in \$5 million more in this category than was expected. Filing collections were almost exactly on target.

Corporate Income Tax collections were slightly higher than expected in August, and now stand \$0.9 million below the predicted amount for the year to date. Filing collections were a little (\$0.2 million) lower than expected, but quarterly estimated payments were \$0.5 million above the target for the month. Refunds were very close to the estimate for August.

Sales Tax collections were significantly stronger than expected for the second consecutive month this fiscal year. August's gain of \$2.5 million brings the year-to-date excess to \$4.8 million. This is occurring in the face of a declining rate of economic growth in Idaho, and most likely is due to continued strength in fixed asset and durable goods purchasing.

Product Tax revenue appeared exceptionally strong in August (ahead by \$0.4 million), but this was due to the correction of a missed transfer in July. For the year to date, Product Tax revenues are only ahead by \$0.1 million. Miscellaneous revenues were \$1.4 million higher than expected in August, with half of this excess due to interest earnings.